Financial assistance to Gujarat

*134. SHRI KANJIBHAI PATEL:
SHRI KESHUBHAI S. PATEL:

Will the Minister of FINANCE be pleased to refer to answer to Unstarred Question 4326 given in the Rajya Sabha on the 15th May, 2007 and state the present position for the approval of financial assistance to the State Government of Gujarat for reconstruction of infrastructure sectors damaged due to floods of 2005 and 2006?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): The Government of Gujarat had submitted a proposal seeking financial assistance of Rs. 2936.26 crore for long term rehabilitation and reconstruction of damaged infrastructure in the wake of floods in 2005. The proposal has been examined by the Planning Commission and the Inter-Ministerial Committee (IMC). The assessment of IMC has been placed before the High Level Committee (HLC) for its consideration.

The State Government has not submitted any proposal to the Government of India, seeking financial assistance for long term rehabilitation and reconstruction of damaged infrastructure during floods of 2006.

Calculation of prime lending rate

*135. SHRIMATI N.P. DURGA: Will the Minister of FINANCE be pleased to state:

(a) details of direction given by the RBI to banks with regard to change in the manner of calculating the Prime Lending Rate;.

(b) whether RBI has also made certain important observations with regard to PLR in its recent Report on Currency and Finance;

(c) if so, the details thereof; and

(d) how the above direction of the RBI helps the agriculturist, small unit-holders and others to get loan at a lower rate of interest?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) The Reserve Bank of India (RBI) has issued an update Master Circular on Interest Rates on Advances on July 2, 2007 to all the Scheduled Commercial Banks (excluding RRBs), which is available in their website *(www.rbi.org.in).*

As per their instructions, the banks are to be guided by the following considerations while determining the Benchmark Prime Lending Rate (BPLR), in order to enhance 'transparency in banks' pricing of their loan products as also to ensure that the BPLR truly reflects the actual costs:

(i) Banks should take into account their (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin, while arriving at the benchmark PLR. Banks should announce a Benchmark PLR with the approval of their Boards.

(ii) The Benchmark PLR will be the ceiling rate for credit limit up to Rs. 2 lakh.

(iii) All other lending rates can be determined with reference to the Benchmark PLR arrived at as above by taking into account term premia and/or risk premia.

(b) and (c) The relevant extract of the Report on Currency and Finance for 2005-06, which is the latest available, is given at in the Statement *(See* below).

(d) In order to provide credit to the farmers at reasonable cost, the Government has decided that the farmers receive short-term credit at an interest rate of 7% per annum with an interest subvention of 2% for loan up to Rs. 3 lakh on the principal amount since Kharif season of 2006-07.

Under the existing guidelines of RBI, interest rate on loans upto Rs. 2. lakh should not exceed the BPLR of the banks concerned.

With effect from July 12, 2007, a package of measures has been announced to provide relief to exporters in nine specified categories and to all exporters from Small and Medium Enterprises Sectors from 01.04.2007 to 31.12.2007 in terms of interest rate subvention of 2% points on Rupee Export Credit. Accordingly, banks would charge interest rate not exceeding BPLR minus 4.5% on pre-shipment credit up to 180 days and post shipment credit up to 90 days on outstanding amount for the period April 1, 2007 to December, 31, 2007.

Statement

Extract taken from RBI Report of "Currency and Finance-2005-06".

9.18 Although banks have been given the freedom to determine their lending rates, the principles followed by banks in fixing their Benchmark Prime Lending Rate (BPLR) are viewed as opaque. A predominant and growing proportion - over eighty per cent — of the commercial banks' loan portfolio is at sub-BPLR rates. Competition has turned the pricing of a significant proportion of loans far out of alignment with the BPLR and in a non-transparent manner (Mohan, 2007b). The BPLR has ceased to be a reference rate, thereby hindering an assessment of the efficacy of monetary transmission. There is a public perception that banks' risk assessment processes are less than appropriate and that there is underpricing of credit for Corporates, while there could be overpricing of lending to Agriculture and SSIs. Lending below the BPLR has several implications. In particular, the fixation of BPLR continues to be more arbitrary than rule-based. Therefore, the concept of arriving at the BPLR needs to be looked into with a view to making it more transparent.

Collaboration with Myanmar for natural gas exploration

*136. SHRI HARISH RAWAT:
SHRI SANTOSH BAGRODIA:

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether India and Myanmar have been cooperating in the field of oil and natural gas exploration;